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UNCLAS ANKARA 008111

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SENSITIVE

STATE ALSO FOR E, EB/IFD AND EUR/SE
TREASURY FOR OASIA - MILLS
NSC FOR BRYZA AND QUANRUD

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SUBJECT: PROBLEMS MEETING THE 2002 PRIMARY SURPLUS TARGET

REF: ANKARA 8108

1. (SBU) Summary: The IMF and Central Bank are worried about the caretaker government's failure to fully implement fiscal measures needed to meet this year's primary surplus target of 6.5 percent of GNP. We have expressed our concern about this to senior economic bureaucrats this week -- who say that without political support there is little they can do -- and have also discussed the problem with AK Party officials in hopes they will put pressure on the bureaucracy to take the right steps. We will follow up with AK's economic team next week. End Summary.

2. (SBU) IMF ResRep and Central Bank Governor have told us recently of their concern that, in the aftermath of the recent election, the current government did not appear to be fully implementing the additional fiscal measures -- agreed to during the last IMF mission -- needed to reach this year's primary surplus target of 6.5 percent of GNP. IMF ResRep told us November 8 that, in light of recent data indicating that the GOT had met primary surplus targets through August, the Fund is now revising downward its estimate for the gap still to be filled, but nonetheless believes the amount is significant. The lowest estimate for the remaining gap we have seen, from the Central Bank, is \$700 million, and that does not include social security fund deficits.

3. (SBU) In the past few days, we have met with the Under Secretaries of Finance, Treasury, and State Planning to

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stress the need for full implementation of these measures. The responses have not been reassuring. State Planning U/S Izmerlioglu refused to say whether his office was delaying certain spending measures, insisting that the IMF should not be getting involved in such detail. Finance U/S Dikmen agreed there was a problem, but argued that (a) the government had never actually signed an agreement with the IMF to implement these measures, and (b) the bureaucracy could not implement them until the new government came into office and gave its blessing. Treasury U/S Oztrak said he was doing as much as possible (mostly in terms of raising state enterprise prices), but that it was difficult "in the absence of political support." He suggested the best way out was for members of the incoming AK government to give the bureaucracy the green light to pursue these measures.

4. (SBU) IMF ResRep advised that, during a meeting earlier this week, State Minister Turker also was not optimistic the caretaker government would implement the fiscal measures, although he did agree to push for raising prices of TEKEK products (alcohol and tobacco). This is one of the major measures needed to close the shortfall, per the Fund.

5. (SBU) We have raised the problem with AK Party officials, including during Ambassador's November 7 call on Party Chairman Erdogan (reftel). We will follow up with AK's economic coordinator on November 11, and will stress that it is in the incoming government's interest to convince the bureaucracy to implement the fiscal measures right away.

6. (SBU) Comment: The caretaker government does not appear to have any incentive to implement these measures, and the bureaucracy is hesitant to act until it knows what the incoming government wants. Thus, convincing AK's economic team of the need to apply pressure will be critical.

PEARSON